STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
Erie, Colorado; Water/Sewer

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Summary:

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Credit Profile		
Erie wastewtr enterprise rev bnds (Direct Pay BAB) ser 2009B due 12/01/2037		
Long Term Rating	NR	Withdrawn
Erie wastewtr (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) on Erie, Colo.'s wastewater revenue debt one notch to 'A+' from 'A'. The outlook is stable.

The upgrade reflects our opinion of the city's robust historical and projected debt service coverage (DSC), excluding tap fees, which we expect to remain stable.

In addition, Standard & Poor's is withdrawing its rating on the series 2009B wastewater enterprise revenue bonds because the city never issued the debt.

The rating reflects our opinion of the following credit strengths for the wastewater utility system, specifically its:

- Stable residential customer base, coupled with very strong income and direct access to the Denver-Boulder metropolitan statistical area (MSA);
- Strong liquidity; and
- Strong DSC since fiscal 2013, albeit including tap fee revenue.

We believe what we consider the system's above-average rates and moderate debt somewhat offset these strengths.

A net wastewater system revenue pledge secures the bonds.

The wastewater fund has experienced strengthening DSC. We report DSC with the inclusion and exclusion of tap fees, as well as the inclusion of interest income in all calculations. For fiscal 2012, DSC without tap fees was 1.03x; with tap fees, DSC was 1.43x. For fiscal 2013, DSC without tap fees grew to 1.31x; with tap fees, DSC was 2.01x. We view the audited DSC without tap fees as good, and we consider the audited DSC with tap fees strong. For unaudited fiscal 2014, DSC without tap fees was good at 1.29x; with tap fees, DSC was a strong 2.14x. Management's fiscal 2015 forecast has DSC without tap fees decreasing slightly to 1.16x; with tap fees, the forecast has DSC at a strong 2.51x. Management is projecting future DSC with tap fees will be strong and future DSC without tap fees will be good.

The system's year-to-year increases in service and tap fee revenue support DSC metrics. Since fiscal 2011, operating revenue without tap fees grew by 38% to $4.3 million in unaudited fiscal 2014. With the assumption of no rate increases, management is projecting an average growth for operating revenue at 5.25%, up until fiscal 2019. Tap fees since our last review have rebounded, and they were $1.1 million for fiscal 2013. Unaudited tap fees were $1.3 million and budgeted tap fees were $2.1 million for fiscal 2015; tap fees should remain flat throughout the fiscal 2019 forecast.

Cash has remained strong since our last review. For audited fiscal 2013, nominal unrestricted ending cash and investments were $9 million, which provided 1,513 days' cash on hand. Unaudited fiscal 2014 has an ending balance of $10.7 million, or 1,663 days' cash on hand, which we view as strong. With budgeted capital expenditures planned in fiscal 2015, officials are projecting cash will end at $7.8 million, providing 1,023 days' cash on hand, which we view as strong. Cash has historically remained more than the 90-day minimum policy.

Located in north-central Colorado, Erie is a bedroom community with a population estimate of 20,233. Residents have access to employment opportunities in the nearby Denver-Boulder MSA, such as the aerospace, telecommunications, and technology sectors. The city is approximately 25 miles north of Denver and 15 miles east of Boulder. Residents also have employment opportunities within the city's government, manufacturing, and employment sectors. We view median household effective buying income a very strong 170% of the national average.

The system provided wastewater service to an estimated customer base of 6,912 in 2014, which was 98% residential; this represented a 9.7% increase from 2011. The customer base is very diverse: The 10 leading users accounted for just 6.2% of fiscal 2014 operating revenue. Tap fees support the system; residential taps sold in 2014 totaled 291, a 169% increase since 2011. Management attributes this increase in taps due to housing community growth because there are currently five major developments in progress. We believe the system's North Water Reclamation Facility (NWRF) has adequate capacity; in 2014, Erie reported average flow of 1.185 million gallons per day (mgd) and a peak flow of 1.388 mgd compared with a capacity of 1.5 mgd. Management expects to expand the NWRF and forego the use of its South Water Reclamation Facility.

The system's current rate, based on our universal usage assumption of 8,000 gallons per month, is $81.28; we view this as affordable compared to income levels of 1.39% of median household effective buying income. The system raised rates to $72.04 in 2012 from $63.68 in 2011; it raised rates again to 81.28 in 2013. Management recently conducted a rate study that would allow the rates to remain the same as 2013 rates up until 2019; management's projection allows the system to meet operations, debt service, and fund some capital improvements through reserves. The system raised tap fees for 2015 to $5,200 per single-family unit from $4,290.

Management updates its five-year capital improvement plan (CIP) every year during the budget process, which allows the flexibility to delay or accelerate projects. The fiscal years 2015-2019 CIP calls for $17 million in projects, partially funded with debt. Some CIP items include the expansion of the NWRF to a 2-mgd capacity, the improvement of biosolids, and the extension of interceptors along Interstate 25. We view the system's debt profile as moderate with a debt ratio at 42.8% of net property plant and equipment.

We consider bond provisions adequate with an additional bonds test that states the system could issue additional bonds if net revenue provides 110% of maximum annual debt service. In addition, the rate covenant equals 110% of debt service.

Outlook

The stable outlook reflects Standard & Poor's opinion of the system's diverse customer base, supported by strong income and access to the Denver-Boulder MSA. The outlook also reflects our view of the system's DSC without tap fees and strong DSC with tap fees. We could lower the rating if DSC and liquidity were to deteriorate. While not likely to occur within our two-year outlook period, we could raise the rating further if the system were to experience healthy DSC excluding tap fees.

Related Criteria And Research

Related Criteria

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- U.S. Municipal Water And Sewer Utilities 2014 Sector Outlook: Learning To Do More With Less, Jan. 9, 2014
- 2014 Review Of U.S. Municipal Water And Sewer Ratings: How They Correlate With Key Economic And Financial Ratios, May 12, 2014

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